



Introduction: Modernisation's Olympian test

By Kerin Hope

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When the last runner in the Olympic torch relay circles the Kalogreza stadium in Athens next August and ignites the flame that will burn for the duration of the games, Greece will come under the glare of the international spotlight as never before.

The criteria for holding a successful Olympics in 2004 are daunting: local athletes must win medals, world records must be broken and doping scandals contained.

Transport systems have to operate smoothly, from the capital's new tramline and suburban railway to the fleet of taxis that will whisk VIP guests staying aboard luxury cruise ships docked in Piraeus port to 30 sports venues around Athens.

"It's a huge challenge, but it's also very exciting to be hosting two weeks of entertainment for the whole world," says Gianna Angelopoulos-Daskalaki, president of Athoc, the games organisers.

Above all, security for the Olympics has to be effective without being heavy-handed. Following the September 11 attacks, the Greek government increased the games security budget to €600m with a provision for additional spending up to €1bn. More than 40,000 Greek police, military and emergency services staff will be involved, with security experts from seven countries, including the US, Israel and the UK, as advisers.

For Costas Simitis, the Socialist prime minister, the games will be a practical test of whether his campaign to modernise Greece has succeeded. Staging a summer Olympics in a country of just under 11m people, will stretch management skills and human resources in the public administration in unprecedented ways. The prime minister has taken personal responsibility for making the games a success.

Yet Mr Simitis may be watching from the sidelines at the opening ceremony on August 13, rather than shaking hands with the world's sporting elite. Opinion polls suggest the governing Panhellenic Socialist Movement faces defeat in parliamentary elections due to be held next April, and that the centre-right New Democracy party will return to power after a gap of more than 10 years.

Under Mr Simitis, Greece shook off a reputation for fiscal imprudence and made its way into the eurozone. Driven by the resulting low interest rates and large transfers of European Union structural assistance, the economy has been growing steadily at 4 per cent yearly. Annual inflation of 3.5 per cent is accepted by the European Commission given Greece's higher growth rate - more than twice the projected average for the EU this year.

Greece earned its partners' appreciation for running an effective EU presidency in the first half of the year, coping with a potentially disastrous split over the war in Iraq and achieving a last-minute consensus on the European constitution and reforms of the Common Agricultural Policy.

Greece also pushed hard during the presidency to win more EU funding for the west Balkan countries - still feeling the impact of conflicts in the 1990s - under a policy to cement relations with all its northern neighbours.

The rapprochement with Turkey, born out of damaging earthquakes in both countries in 1999, is starting to produce results. Under the umbrella of the "Olympic truce" - an initiative of George Papandreu, the foreign minister, to revive an ancient Greek tradition - the network of air corridors over the Aegean Sea is to be widened to ease the flow of international air traffic between Europe and the Middle East. This would mark a small but important step towards settling the long-running Greek-Turkish disputes over sovereignty in the Aegean.

Greece has been just as active promoting efforts to reunify Cyprus ahead of its EU accession next May - and help smooth Turkey's own path towards starting accession talks. If the pro-European alliance of Turkish Cypriot opposition parties wins next month's parliamentary elections in the north of the island, UN-sponsored negotiations for a settlement could start within weeks. Mr Simitis and Mr Papandreu would exert pressure on the Greek Cypriot government, which negotiated accession on behalf of both communities, to complete an agreement at the earliest possible date.

Next month, Nikos Christodoulakis, the finance minister, will visit Ankara to sign a long-awaited agreement on the avoidance of double taxation, which would open the way for Greek companies to start investing in south-east Europe's biggest market. Greek-Turkish trade has almost doubled to about \$1bn since tensions started to relax, but without the security of a tax accord, outward-looking Greek businesses, which have already established a profitable presence in the Balkan markets, had hesitated to move into Turkey. As Greece loses a significant share of EU structural funds to the new EU member-states, promoting ties with Turkey will become a priority.

"There is tremendous potential for business. Istanbul alone is a market that's one-and-a-half times the size of Greece," says Constantine Papadopoulos, European affairs adviser at EFG Eurobank in Athens.

However, the government's critics argue that Mr Simitis has focused on the European Union and Turkey at the cost of domestic reforms. Instead of raising the retirement age and increasing contributions, the Socialists opted for patching up the current system - by re-financing the biggest state pension fund to ensure its survival for another two decades.

Rather than carry out full privatisations of big state-controlled companies amid opposition from the public sector trade unions - the bedrock of Socialist electoral support - the government has sold equity stakes in profitable utilities, raising funds to write down public debt, while retaining a firm grip on management.

After more than 20 years in power, with a brief interruption in the early 1990s, the distinction between the Socialist party and the government has become blurred. This has allowed a small group of Greek businessmen with close party connections to make deals with state enterprises and government bodies on preferential terms - with adverse consequences for competition.

Mr Simitis this year sacked two members of his cabinet accused of corrupt practices, and ordered parliamentary deputies to hand over details of their stock market transactions in the past three years. But

such measures have failed to shift a public perception that corruption has become deeply entrenched in political life as well as in the bureaucracy.

Greece slipped six places this year in Transparency International's index of perceptions of corruption, and holds the lowest place among the 15 European Union countries, below Italy and several of the new central European member-states.

The slow pace of market liberalisation, together with an unhelpful bureaucracy, has discouraged foreign investors from entering the Greek market. For the second time in three years, investment abroad by Greek companies, mostly in the Balkans, is expected to exceed foreign direct investment in Greece.

But only a small number of Greek businesses have expanded successfully into European markets. Many others are struggling to survive in an increasingly competitive environment. According to a recent study by Kantor, the Athens-based consultancy, only 25 per cent of Greek companies are internationally competitive.

"There's a bottleneck looming and it will take time for new companies to emerge and find a market niche," says Costas Mitropoulos, Kantor's managing director.

Yet Mr Simitis's achievements in macroeconomic management and foreign affairs have earned Greece the respect of its EU and regional partners. Whatever difficulties may lie ahead, this turnaround has increased Greek self-confidence and optimism about the future.

If Mr Simitis leaves office after next April's election, Costas Karamanlis, the New Democracy leader, could expect preparations for the Olympics to continue running smoothly. In spite of a party change-over, Mr Karamanlis should also be able to count on the full support of a Socialist-dominated administration - at least until the games are over.

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